

Corporate Credit > U.S. Investment Grade



Exelon Corp

Updated: November 2, 2015

Trade Idea:

- ▶ Buy Exelon Generation Co LLC 10-year bonds

Investment Rationale:

- EXC reached a settlement agreement with the DC Mayor, with support from the DC Attorney General, the Office of the People's Counsel and various other local groups, on some enhanced conditions to the merger. With the new terms, plus the support of the Mayor and various other groups, we think it will be difficult for the DC commission to reject the deal, although nothing is certain. In order to allow sufficient time for the commission to approve the merger, EXC and POM agreed to extend the merger agreement 150 days from the settlement, which would extend the deadline to early-March 2016. This is conditioned on the commission not denying the settlement agreement or not setting a procedural schedule to approve the deal within the 150 day extension. Nonetheless, we think the probability of the deal going through has increased and we continue to view the impact as positive for EXC and POM bonds.
- We are maintaining our outperform recommendation on EXC at this time based more on the expectation of fundamental improvement in the PJM. We think there is still some additional performance potential given the expectation that there may be some fundamental improvement in the wholesale power markets in 2016 when coal-fired generation plant retirements remove some of the low-cost base load supply from the markets. We also believe the recent results of the PJM auction indicate improving market conditions in the area where some of the Exelon Generation capacity is located. Within the complex, we think the EXC Generation bonds offer the best value on a risk/reward basis compared to the PECO and ComEd FMBs given the fact that they are currently quoted well behind the secured bonds on a G-Spread basis.

Recommendation(s):

View	Trade Horizon	Ticker	CPN	Maturity	Ratings		CCY	Issue Size	Yield	Spread			Cash Price	ISIN
					S&P	Moody's				Entry	Target	Loss		
Outperform	12 mos.	EXC	4.25	6/15/2022	BBB	Baa2	USD	523M	3.94	213	183	243	101.70	US30161 MAL72